



# WEEKLY ECONOMIC COMMENTARY



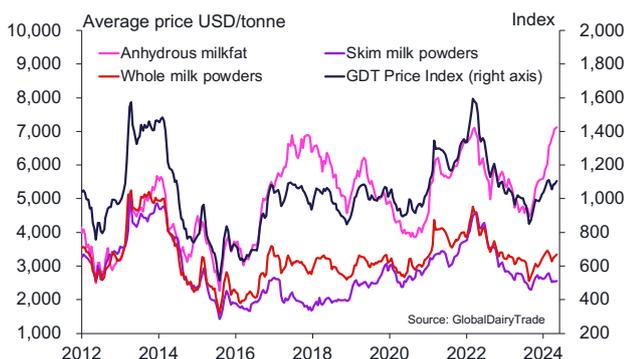
13 May 2024 | Westpac Economics Team | [westpac.co.nz/economics](https://westpac.co.nz/economics) | [economics@westpac.co.nz](mailto:economics@westpac.co.nz)

## Mixed news as RBNZ meeting draws closer into view

The local and international data flow was relatively light last week, leaving the domestic market to ruminate on the meaning of recent softer-than-expected labour market reports in both New Zealand and the US. These reports have caused the market to grow a little more confident that the RBNZ will ease monetary policy before the end of this year, notwithstanding the stronger-than-expected CPI inflation data released last month. This stands in contrast to our own forecast – and that of the RBNZ – that stickiness in domestic sources of inflation will likely require the OCR to remain at its present level until at least the beginning of next year.

Turning to last week's economic news, the latest Global Dairy Trade auction produced a better-than-expected outcome for the nation's dairy farmers, with the headline GDT index rising 1.8% when the futures market had anticipated a decline. Prices for whole milk powder – the key element of New Zealand's product mix – increased 2.4%. Given this outcome, we remain content with our forecast of a \$7.90 farmgate milk price for the current season, rising to \$8.40 next season. The latter would restore at least some level of positive profitability to all but the most leveraged farmers.

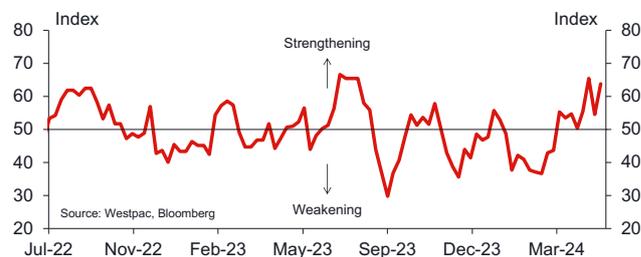
### GlobalDairyTrade auction prices



### Key views

	Last 3 months	Next 3 months	Next year
Global economy	→	→	↗
NZ economy	→	→	↗
Inflation	↘	↘	↘
2 year swap	↗	→	↘
10 year swap	↗	→	↘
NZD/USD	↘	→	↗
NZD/AUD	↘	→	↘

### Westpac New Zealand Data Pulse Index



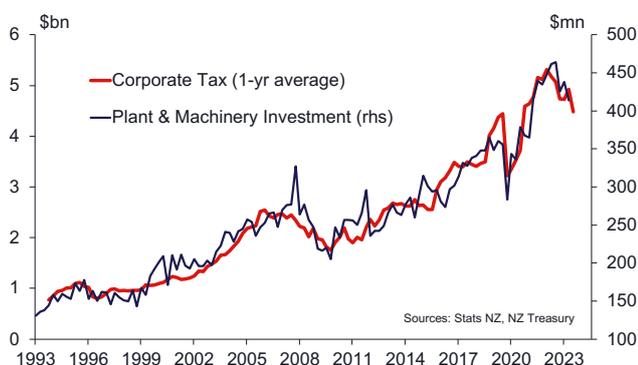
### Key data and event outlook

Date	Event
13 May 24	NZ Selected price indexes, April
22 May 24	RBNZ Monetary Policy Statement and OCR
30 May 24	Govt to release Budget 2024
5 Jun 24	Govt financial statements for 10 mths to April
12 Jun 24	FOMC Meeting (Announced 13 June NZT)
14 Jun 24	NZ Selected price indexes, May
18 Jun 24	RBA Monetary Policy Decision
20 Jun 24	NZ GDP, March quarter
2 Jul 24	NZIER QSBO survey, June quarter
4 Jul 24	Govt financial statements for 11 mths to May
11 Jul 24	NZ Selected price indexes, June
17 Jul 24	NZ CPI, June quarter
31 Jul 24	FOMC Meeting (Announced 1 Aug NZT)

Less encouragingly, in April the Business New Zealand manufacturing PMI remained in contractionary territory for a fourteenth consecutive month, albeit lifting 1.9pts to 48.9. In the detail, the production index posted the largest increase, rising 4.8pts to 50.8 – the first expansionary reading since January 2023. However, the new orders index remained very soft at 45.3 – a full 9pts below the historic average for this series. Official statistics were thin on the ground, although production of ready-mixed concrete – a good indicator of construction activity – fell a further 3.7% in the March quarter. Indeed, concrete production has declined 12% over the past year and fallen for nine consecutive quarters. This outcome strongly suggests that construction activity will make a significant negative contribution to GDP growth during the March quarter.

The weak performance of the economy was reflected in the Government’s Financial Statements for the 9 months to March, which showed a continued negative divergence against the forecasts contained in the Half-Year Economic and Fiscal Update (HYEFU). Specifically, total tax revenue in the year to March is now \$1.36bn below the HYEFU forecast. In the detail, corporate tax is now running \$1.7bn below the HYEFU forecast and down 15% compared with the same nine months of the ‘22/23 year. This reflects a decline in taxable profits. And in common with other indicators, it also suggests that firms’ investment spending will decline further, at least in the near term. GST is also running \$0.3bn below forecast due to weaker than expected consumption spending, which the Treasury suggests could continue through to the end of the fiscal year. At this stage, government expenditure is running behind forecast (as usual) so the OBEGAL deficit is just \$0.6bn larger than the HYEFU forecast. The core Crown residual cash deficit is also \$0.6bn higher than forecast.

#### Corporate tax and plant/machinery investment



These are the final accounts to be released ahead of Budget 2024, which will be tabled on 30 May. They confirm that the fiscal starting point is a little worse than the forecast in the HYEFU. But as set out in the Budget Policy Statement (BPS) in late March, the real problem for the Government is that the HYEFU forecasts assumed that the economy would soon pick up and

generate significantly more tax over the forecast period. Unfortunately, recent economic data – including very weak trend productivity growth – suggests that the HYEFU forecasts are too optimistic, as the BPS acknowledged. Indeed, in her first pre-Budget speech this week, the Minister of Finance lamented that she had grown to dread updates from her Treasury officials, with each successive update seemingly pointing to a weaker fiscal outlook than the last. So going forward, it seems inevitable that Budget 2024 will announce yet another large increase in the forecast government borrowing programme.

This week will bring the release of the final domestic economic indicators that will come available prior to the RBNZ’s next monetary policy deliberation on 22 May. The week is bookended with pricing data. Today the Selected Price Indexes (SPI) for April will allow analysts to begin to refine their forecasts for the Q2 CPI, with the SPI providing insight regarding 45% of the CPI basket, including some of the most volatile and so hard-to-predict components in the tradable sector (e.g., international airfares). This afternoon the RBNZ will release its quarterly Survey of Expectations for Q2. Last quarter the survey pointed to a solid decline in inflation expectations across all horizons, but expectations nonetheless remained above pre-pandemic levels. On Friday, Statistics New Zealand will release its suite of business price indexes for Q1, including the producer price and capital goods price indexes.

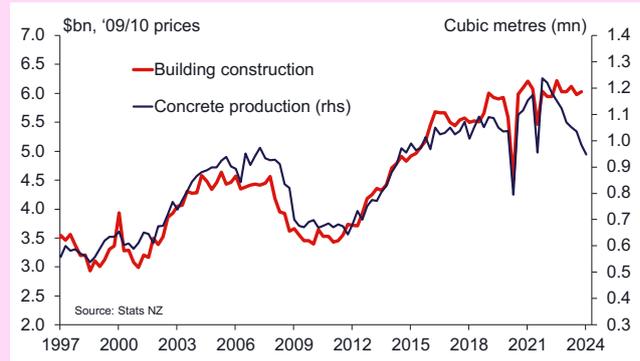
The focus elsewhere during the week will be on key activity indicators. Today the Business NZ services index for April will be of interest, especially following the sharp pullback in this indicator in March. Tuesday will bring an update on migrant arrivals in March and consumer spending in April. Net migrant inflows seem to have slowed a little in recent months but remain at very high levels. There is considerable uncertainty about how quickly inflows will respond to the weakening labour market that is now in train. Finally, the REINZ housing report for April (also out on Tuesday) will be of particular interest. Some indicators suggest that house prices may again be softening amidst a renewed slump in consumer confidence, increasing worries about job security and a sharp lift in the number of listings. Should house prices not pick up this year as we and the RBNZ have forecast, this would likely point to downside risks to consumer spending over the balance of this year.

**Darren Gibbs**, Senior Economist

### Chart of the week.

For some time, building consents have been pointing towards an impending slowdown in construction activity. And last week saw the release of another “hard” indicator. Specifically, production of ready-mix concrete declined 3.7% during the March quarter. This follows a 4.9% decline in the December quarter and meant that production was almost 12% lower than a year earlier. Unsurprisingly, concrete use has quite a tight relationship with building activity. The weakness seen over the past few quarters suggests that construction activity will make a negative contribution to GDP growth in the March quarter. Moreover, the chart below hints at the possibly that past activity levels may be revised downward at some point (perhaps as part of the annual GDP revisions released in the September quarter).

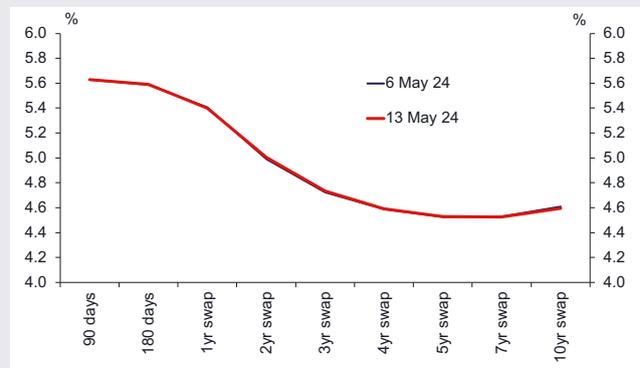
### Concrete evidence of a building slowdown



### Fixed versus floating for mortgages.

The RBNZ left the OCR on hold in April. While further OCR hikes don't look likely in the current cycle, easings are still some way off. For borrowers favouring certainty, at current fixed rates we see value in fixing for as long as two years.

### NZ interest rates



# Global wrap

## North America.

The latest University of Michigan survey highlighted the concerns the Fed is currently balancing. Consumer sentiment dropped back, consistent with a softening in household spending. However, expectations for inflation are proving to be stubborn, pushing higher in May. Other data over the past week pointed to a further easing in economic momentum. On the employment front, jobless claims rose 22k to their highest level in eight months (though some of that rise looks like it was temporary). In addition, the latest Senior Loan Officers' Opinion Survey showed a tightening in lending conditions in the early part of the year. Comments from Fed speakers over the past week including Barkin, Bowan, Daly, Logan and Williams downplayed the likelihood of further hikes. However, they also indicated that there was no rush to cut rates, with the eventual timing of cuts dependent on the flow of data. This week we'll receive updates on inflation and retail sales on Tuesday, and industrial production on Thursday. There will also be a number of Fed speakers, including Chair Powell at an event in the Netherlands alongside ECB's Knot.

## Asia-Pacific.

As expected, the RBA left its cash rate unchanged at 4.35% in May. The accompanying policy assessment noted slower-than-expected progress on inflation and included a related upwards revision to the near-term inflation forecast. At the same time, however, the outlook for near-term growth was revised down. Balancing those considerations, the forward guidance remained neutral with the Board reiterating that they are "not ruling anything in or out." However, the Board did signal a slightly more determined stance, noting that they "will remain vigilant to upside risks". We're forecasting the RBA will remain on hold until November. In China consumer prices rose 0.3% in April, with core prices up 0.7% (both up from the levels seen in March). In contrast producer prices eased. While those developments point to firming domestic demand, it's likely that the economy will require continued policy support.

## UK.

The Bank of England left its policy rate at 5.25% in May in a 7-2 decision. The two dissenters voted for an immediate cut. MPC members remained concerned about the extent of inflation easing to date, especially in the services sector. However, Governor Bailey noted in the press conference that "it is likely that we will need to cut bank rates over the coming quarters...possibly more so than currently priced into market rates". Markets are pricing in a high chance of a rate cut in June.

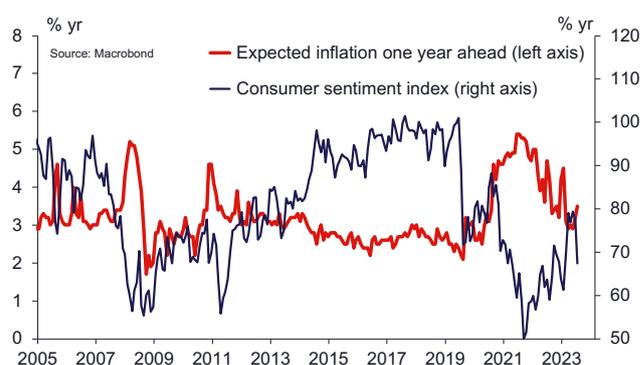
Trading partner real GDP (calendar years)

	Annual average % change			
	2022	2023	2024	2025
Australia	3.8	2.1	1.3	2.2
China	3.0	5.2	5.2	5.0
United States	2.1	2.5	2.5	1.5
Japan	1.0	2.0	0.7	1.0
East Asia ex China	4.5	3.4	4.1	4.2
India	7.2	7.7	6.5	6.7
Euro Zone	3.3	0.4	0.5	1.5
United Kingdom	4.1	0.4	0.5	1.3
NZ trading partners	3.3	3.4	3.4	3.4
World	3.5	3.3	3.3	3.1

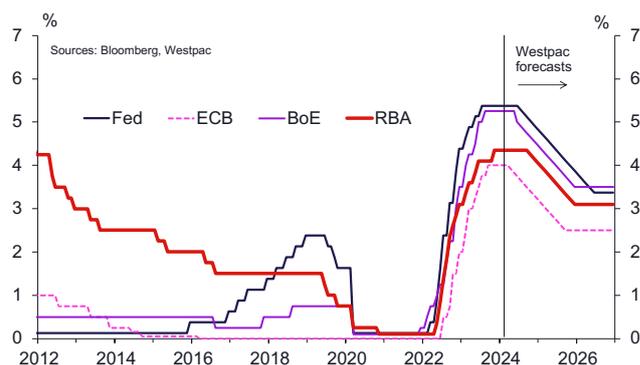
Australian & US interest rate outlook

	10-May	Jun-24	Dec-24	Dec-25
<b>Australia</b>				
Cash	4.35	4.35	4.10	3.10
90 Day BBSW	4.38	4.37	4.17	3.30
3 Year Swap	4.17	4.10	3.90	3.50
3 Year Bond	3.97	3.90	3.70	3.30
10 Year Bond	4.34	4.35	4.25	4.00
10 Year Spread to US (bps)	-12	-15	-5	0
<b>US</b>				
Fed Funds	5.375	5.375	4.875	3.875
US 10 Year Bond	4.45	4.50	4.30	4.00

US University of Michigan consumer sentiment



Global central bank policy rates



# Financial markets wrap

## Interest rates.

New Zealand swap rates were fairly stable last week, with no major New Zealand data or events. The RBA statement and US inflation expectations data did cause rates to fall and rise, respectively, but overall, the 2yr swap was stuck in a range 5bp either side of 5.00%.

The key New Zealand rates events this week will be the RBNZ's inflation expectations surveys plus the monthly price indices (both out Monday), and US CPI inflation (Thursday).

Market pricing of OCR cuts has settled on October as the first likely month. Our economists continue to forecast no cut until February 2025, noting that core inflation remains sticky. We expect the 2yr swap to remain capped by 5.20% during the week ahead.

## Foreign exchange.

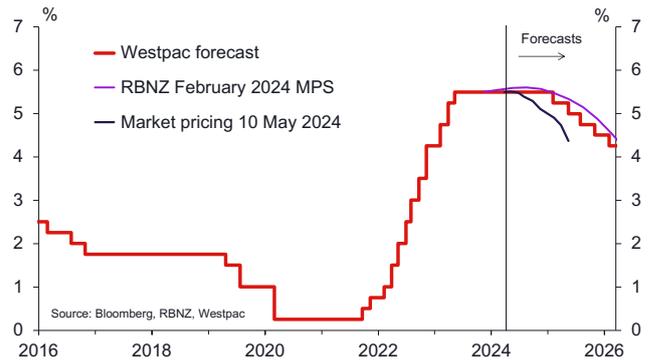
NZD/USD was rangebound last week, between 0.5980 and 0.6050, with no major surprises to give it direction. That said, there is a hint of upside momentum, but it needs to break above 0.6050 to be compelling.

US CPI data this week poses major event risk. The New Zealand data is likely to be less important.

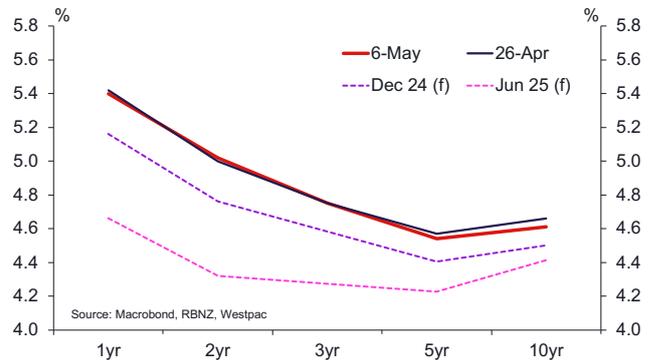
Looking ahead to the September quarter, if our economists' forecasts for the Fed and RBNZ (easing to start in Sep 2024 and Feb 2025, respectively) are eventually priced by the market, NZD/USD could rise further towards 0.6200. Alternatively, if the Fed were to defer its easing cycle, NZD/USD would likely be capped by 0.6100.

NZD/AUD did start an upward reversal from 0.9065 last week but it has been hesitant, leaving the cross rangebound near term between 0.9100 and 0.9130. We are watching for a break high this week, with Australian labour data likely to be the main driver. The cross remains at the lower end of the past year's range, at a reasonable level for New Zealand exporters to consider for hedging.

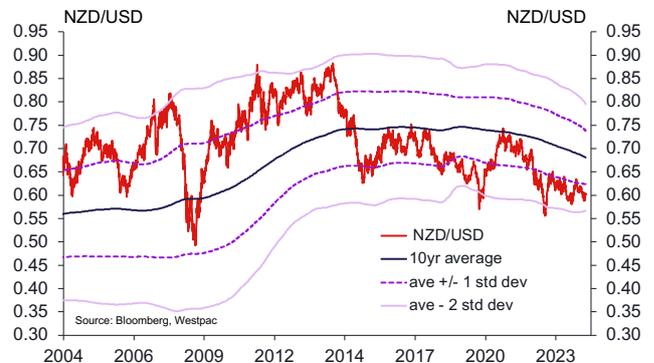
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-24
USD	0.602	0.586-0.619	0.555-0.743	0.648	0.61
AUD	0.912	0.907-0.944	0.873-0.992	0.932	0.91
EUR	0.559	0.552-0.572	0.517-0.637	0.583	0.55
GBP	0.481	0.471-0.490	0.464-0.544	0.506	0.48
JPY	93.7	90.2-94.8	61.3-94.8	78.8	93.9

# The week ahead

## NZ Apr monthly selected price indices

May 13

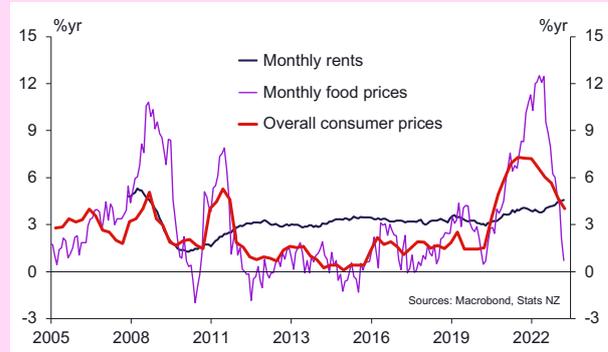
Stats NZ's suite of monthly price data covers around 45% of the CPI, providing timely updates on some of the more volatile components of inflation.

In terms of the big items, we're expecting a 2% rise in fuel prices in April, along with a small 0.1% fall in food prices related to seasonal declines in produce prices.

On the domestic front, the key focus will be housing rents. April typically sees larger rent rises and we're forecasting a solid 0.4% rise in line with recent trends.

We'll also be keeping a close eye on the volatile travel components, like airfares and the cost of holiday accommodation which can drive much of the quarter-to-quarter swings in the CPI. We expect some easing in those prices after firm outturns in recent months.

## Consumer prices



## NZ Q2 RBNZ survey of expectations

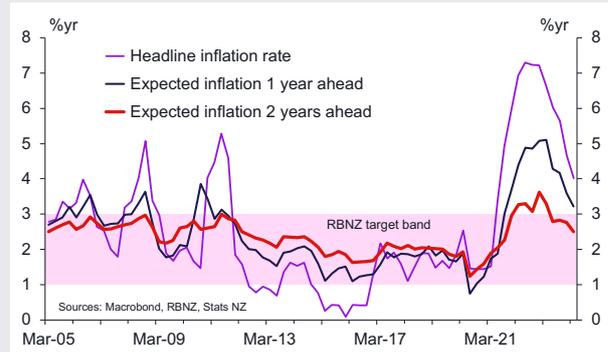
May 13, Expected inflation one year ahead, last: 3.2%  
Expected inflation two years ahead, last: 2.5%

The RBNZ looks at a range of surveys and the importance of this particular measure has waned over time. However, it still provides useful colour on economic conditions.

Both short and longer-term inflation expectations have been dropping back, consistent with the fall in actual inflation over the past year. Notably, the closely watched two-year ahead measure has fallen to its lowest level since 2021.

With inflation continuing to ease in the early part of this year, inflation expectations are set to take another step down. However, with domestic inflation pressures remaining sticky, there is a risk that the decline in inflation expectations is more modest going forward, and that expectations linger at levels above the RBNZ's 2% target midpoint.

## RBNZ Survey of Expectations



## NZ Apr REINZ house sales and prices

May 14, Sales\* – Last: -2.1% mth, +8.0% annual  
Prices\* – Last: -0.2% mth, +2.6% annual

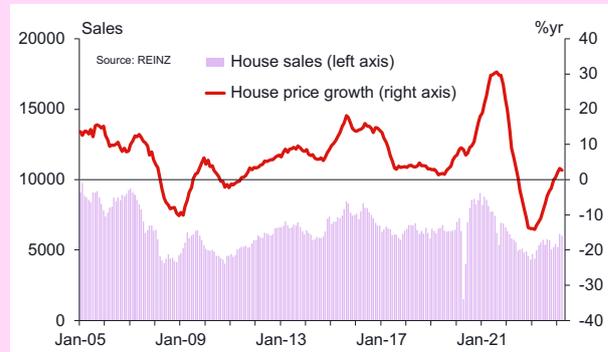
\* Monthly figures based on Westpac seasonal adjustment

New Zealand's housing market remained subdued in March, with sales still low and some easing in prices.

Recent anecdotes from real estate agencies indicate that the momentum in sales remained limited in April. That's despite reports of an increasing number of properties coming up for sale. Consistent with that, prices are also likely to have remain weak.

We expect that the current softness will gradually give way to a period of stronger activity supported by population gains and changes to policies affecting investors' tax burden. However, with borrowing costs still at elevated levels for now, that pickup is still some way off.

## REINZ house prices and sales



# The week ahead

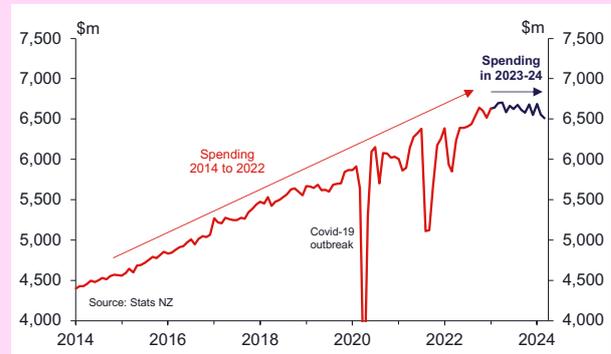
## NZ Apr retail card spending

May 14, Last: -0.7%, Westpac f/c: 0.4%

Retail spending levels fell 0.7% in March with widespread falls. We're forecasting a modest 0.4% rise in retail spending in April. Underlying that forecast are moderate gains in grocery purchases (related to continued strong population growth) and hospitality spending. In contrast, spending on durables and apparel is continuing to trend down.

The longer-term trend in spending remains weak. Over the past year, nominal spending levels have been flat to slightly down. That's despite strong population growth and continued price increases. The softness in spending highlights the squeeze on households' spending power from high inflation and interest rates. Nervousness about the economic outlook and the softening in the jobs market is also prompting many households to rein in their spending.

## Retail spending growth has ground to a halt

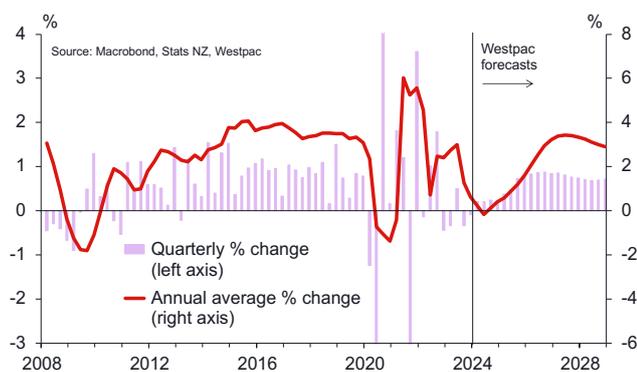


# Economic and financial forecasts

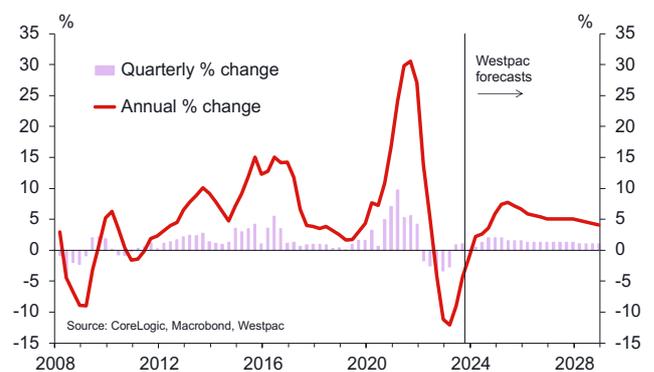
Economic indicators	Quarterly % change				Annual % change			
	Dec-23	Mar-24	Jun-24	Sep-24	2022	2023	2024	2025
GDP (production)	-0.1	0.2	0.2	0.2	2.4	0.6	0.4	1.6
Consumer price index	0.5	0.6	0.6	1.0	7.2	4.7	2.7	2.3
Employment change	0.4	-0.2	0.2	0.1	1.7	2.7	0.1	0.9
Unemployment rate	4.0	4.3	4.6	4.9	3.4	4.0	5.2	5.4
Labour cost index (all sectors)	1.0	0.9	0.9	0.8	4.1	4.3	3.4	2.6
Current account balance (% of GDP)	-6.9	-6.3	-6.0	-5.5	-8.8	-6.9	-4.9	-3.9
Terms of trade	-7.8	6.4	2.7	1.5	-4.2	-10.6	12.0	3.4
House price index	-0.2	0.5	1.3	2.0	-11.2	-1.1	5.9	6.7

Financial forecasts	End of quarter				End of year			
	Dec-23	Mar-24	Jun-24	Sep-24	2022	2023	2024	2025
OCR	5.50	5.50	5.50	5.50	4.25	5.50	5.50	4.50
90 day bank bill	5.65	5.67	5.60	5.60	4.26	5.65	5.50	4.50
2 year swap	5.28	4.92	5.10	5.00	5.10	5.28	4.75	4.00
5 year swap	4.84	4.40	4.60	4.50	4.67	4.84	4.40	4.10
10 year bond	5.09	4.69	4.80	4.70	4.31	5.09	4.60	4.25
TWI	70.8	71.6	70.3	70.5	70.8	70.8	70.8	72.0
NZD/USD	0.60	0.61	0.60	0.60	0.60	0.60	0.61	0.65
NZD/AUD	0.93	0.93	0.91	0.91	0.92	0.93	0.91	0.91
NZD/EUR	0.56	0.56	0.55	0.55	0.59	0.56	0.55	0.56
NZD/GBP	0.49	0.48	0.47	0.47	0.51	0.49	0.48	0.49

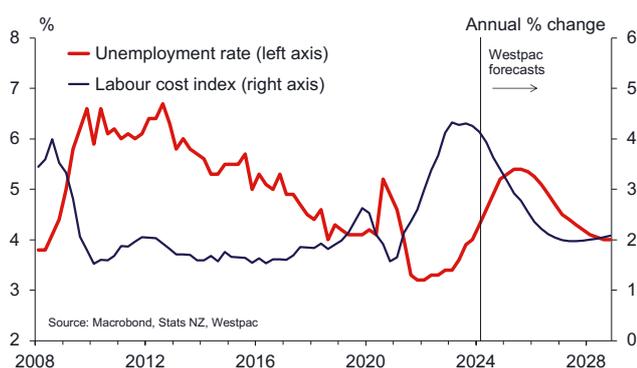
GDP growth



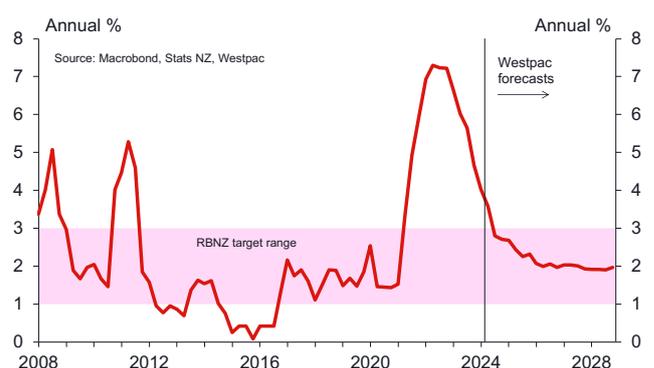
House prices



Employment and wage growth



Consumer price inflation



# Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
<b>Mon 13</b>					
<b>NZ</b>	Apr BusinessNZ PSI	47.5	-	-	Financial headwinds continuing to weigh on demand.
	Apr food prices	-0.5%	-	-0.1%	Seasonal softness in produce prices.
	Apr housing rents (stock measure)	0.4%	-	0.4%	Population and cost pressures remain strong.
	Q2 RBNZ inflation expectations	2.5%	-	-	Likely to fall, but still remain above 2%.
<b>Aus</b>	Apr NAB business survey	9	-	-	Conditions easing as confidence treads water.
<b>US</b>	Fedspeak	-	-	-	Mester and Jefferson.
<b>Tue 14</b>					
<b>NZ</b>	Apr REINZ house sales %yr	8.0%	-	-	Sales subdued despite a surge in new listings...
	Apr REINZ house prices %yr	2.6%	-	-	...suggesting downward pressure on prices for now.
	Apr retail card spending	-0.7%	-	0.4%	Spending growth remains muted despite population gains.
	Mar net migration	7630	-	-	Annual net inflow dropping back, but risk of large revisions.
<b>Aus</b>	2024/25 Federal Budget	-	-	-	On track to deliver a second consecutive surplus.
<b>Eur</b>	May ZEW survey of expectations	43.9	-	-	Optimism growing as rate cuts come into view.
<b>UK</b>	Mar unemployment rate %	4.2%	4.3%	-	Survey volatility makes gauging U/E trend difficult...
	Mar average weekly earnings %yr	5.6%	-	-	... but wage g'th indicates labour market is finding balance.
<b>US</b>	Apr NFIB small business optimism	88.5	88.1	-	Confidence fragile; employment gauge in focus.
	Apr PPI %mth	0.2%	0.3%	-	Consistent with at-target consumer goods inflation.
	FOMC Chair Powell	-	-	-	Speaking in Netherlands alongside ECB's Knot.
<b>Wed 15</b>					
<b>Aus</b>	Q1 WPI %qtr	0.9%	0.9%	0.9%	Rising underemployment points to wage inflation peaking.
<b>Eur</b>	Q1 GDP %qtr	0.3%	0.3%	-	Second estimate to provide more colour at national level.
	Mar industrial production %mth	0.8%	-	-	Very weak versus last year as manufacturers struggle.
<b>US</b>	Apr CPI %mth	0.4%	0.4%	0.3%	Supply-side to blame for lack of progress.
	Apr retail sales %mth	0.7%	0.4%	0.6%	Growth to decelerate to or below trend this year.
	Mar business inventories %mth	0.4%	0.0%	-	Run-down remains centred on wholesale.
	May Fed Empire state index	-14.3	-10.0	-	Volatile around a weak level.
	May NAHB housing market index	51	51	-	Homebuilder sentiment has a long recovery ahead.
	Fedspeak	-	-	-	Kashkari.
<b>Thu 14</b>					
<b>Aus</b>	Apr employment change (000's)	-6.6	21.9	+20	Should provide a clearer read on underlying conditions...
	Apr unemployment rate %	3.8%	3.9%	3.9%	... with room for the unemployment rate to round up.
	RBA Assistant Governor (Economic)	-	-	-	Hunter speaking at REIA 100 Conference, Hobart.
<b>Jpn</b>	Q1 GDP %qtr	0.1%	-0.3%	-	Set to slip back into contraction on weak consumption.
<b>US</b>	Apr industrial production %mth	0.4%	0.2%	-	Production level has held broadly flat for around a year now.
	Apr housing starts %mth	-14.7%	8.6%	-	Borrowing costs remain a headwind for builders...
	Apr building permits %mth	-3.7%	1.4%	-	... risks to the pipeline linger.
	May Philly Fed index	15.5	8.0	-	Stronger performance relative to other regions.
	Apr import price index %mth	0.4%	0.2%	-	Global goods disinflation story remains in tact.
	Initial jobless claims	-	-	-	To remain relatively low, for now.
	Fedspeak	-	-	-	Mester, Bostic.
<b>Fri 15</b>					
<b>NZ</b>	Q1 PPI %qtr	0.7%	-	-	Both input and output inflation back around 2%yr.
<b>Chn</b>	Apr retail sales ytd %yr	4.7%	4.7%	-	Lingering uncertainty over labour market and wealth...
	Apr industrial production ytd %yr	6.1%	6.0%	-	... leaving growth in the hands of robust industrial...
	Apr fixed asset investment ytd %yr	4.5%	4.6%	-	... expansion and Asia's appetite for China's exports.
<b>Eur</b>	Apr CPI %yr	2.4%	2.4%	-	Final estimate.
<b>US</b>	Apr leading index %mth	-0.3%	-0.3%	-	Data speaks to risks around the outlook.

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